

## STOCK EXCHANGE IN SERBIA OPERATES ONCE PER MONTH

While shares are traded permanently on the world stock markets, such trades happen once per month on the Belgrade Stock Exchange (BSE). Just that fact is enough to demonstrate a total failure of the Serbian government in reforming financial markets in Serbia, some 16 months after being in charge. This failure is consistent with other government's failures in reforming Serbian economy and state.

Here are some additional facts that complete the fiasco picture of the financial markets in Serbia. Up to now, it has been traded with less than firms' shares on the BSE, and they have reached 36% of the book value. Low price indicates overestimation in books kept compared to the market price, while a negligent number of trades indicates hesitation for trade on the formal, legal market. The later is also to explain the fact, that up to now just some 200 firms are shown in the Temporary register. Even in this 200 cases the ownership structure in the Temporary register does not fit to the state of affairs in shareholders' books, which are legally legitimate for evidence. It is estimated that the majority of trades for more than 1000 shareholders societies (being privatized during Milosevic's era) goes informally, on the black market. This indicates that formal market is heavily overregulated and more expensive for shareholders, compared to the informal one. There is no possibility, according to current legislation, that informal trades may be accepted as formal and legal ones, despite plea of some Serbian officials to do that. Although this proposal is reasonable, officials should propose changes in bad legislation rather than the breach of law.

Despite low level of trade with shares on the BSE, Serbian authorities are tireless in launching new tricks. According to them, firms' shares should be traded for **prevailing** price, and if somebody offers a higher price than the prevailing one, he/she cannot buy shares. Prevailing price is established by bureaucracy rather than by market, in order (allegedly) to increase the number of transactions. In fact, that is to create rents for 'friends', and to collect bribes. This prevailing price should simply be lifted, for being anti-market in nature and for stimulating corruption, which already has pandemic proportions in Serbia.

This does not exhausts 'specialties' for trading shares in Serbia. No single new share should be traded without permission of the firms' management to do so. Even to current share owners is not allowed to sell their shares without written permission issued by firms' managers. By jeering to property rights managers protect that way their positions in firms. For that reason markets are not able to exercise competitive pressure on managers. Let me add, that 'hostile takeover' is not permitted under Serbian law. Serbian official should explain, what would be a motive for eventual buyers to get shares, and by which mechanisms managers can undergo market pressure.

The consequence is, that there is no trades by individuals on the BSE, although it is legally permitted. There is no investment funds in Serbia, and under these conditions they do not have any ground to emerge or to enter the market. Serbian citizens hold in straw-mattresses some \$ US 4 billion, while official savings are less than \$US 0.5 billion. Until this money becomes active, including trades on the BSE, appeals by Serbian politicians to foreign funds and firms to enter

Serbian market sound completely misplaced. And until domestic investors start to invest on the larger scale, there is no point for foreigners to come.

Why all this happens? A brief historical remark helps to understand a lot.

Privatization done during 1992-3 was announced void, and already privatized firms were nationalized again in 1994 due to a campaign launched by Zoran Djindjic and his Democratic party. Milosevic's socialists have supported democrats in doing that. The explanation of Djindjic and Democratic party was that firms were sold out under their price, and that hyperinflation has assisted the process of mass theft. Djindjic counted to get votes of the Serbian pauperized citizens. That account was shortsighted and wrong, since via nationalization Milosevic got control over the economy he has already lost at that time, and the resentment of citizens was awaken and instrumentalized for demagogic reasons. However, with this move Djindjic has sent the message that property rights for him equal to nothing. Now that man is in power, and the question is, who is going to trust him and his ministers, which still use Milosevic's legislation. One does not need to squander time in looking for answer, since the negligent activity of the BSE provides it. And this will not be changed until another, credible government appears in charge in Serbia. In order to get credibility, that government should free the BSE and economy of bureaucratic occupation and of bureaucrats who are just interested in bribes and rents.

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